

IN THE SPECIFICATION

**Please replace the second to last paragraph on page 9 with the following paragraph:**

FIG. 2 is a flow diagram describing the overall POS Check Service flow. Initially, in step 150, various setup procedures are performed ~~performed~~ by or for the merchant, the acquirer, the drawee bank, the third party and the service organization. These steps typically occur before the service is operational and before a customer performs a transaction. A customer presents a paper check as part of step 154 in which a request is initiated for clearing and settlement; this step is explained in greater detail below.

**Please replace the four paragraphs beginning on page 10 with the following four paragraphs:**

FIG. 3 is a flow diagram describing the setup procedures for the POS Check Service. The setup procedures typically occur before the POS Check Service is available to conduct a transaction. Regarding the point of sale, there are various tasks a merchant performs in order to be ready to convert a check at the point of sale in step 202. For example, a merchant installs devices at the point of sale that can read MICR, OCR or other data on checks, installs terminals that allow key entry of any additional data, and installs devices for printing a sales draft receipt and to initiate reversals. A merchant also develops or installs a point-of-sale application for use with a check reader that can read and assemble the required information for transmission. Development of these application programs is known to those of skill in the art. A merchant also designates a bank account where electronic check funds can be deposited. Depending upon the telecommunications service used, the merchant works with its acquirer to order and install the required telecommunications configuration, and also works with its acquirer to agree on the settlement process and reconfiguration procedures. The merchant also works with a third party agent to set up parameters for velocity checks (which may also be handled by an acquirer), sets up service options, and performs customer education and clerk training.

The acquirer also performs certain tasks to enable POS Check Service transactions in step 206. For example, the acquirer provides hardware and software for communication with a merchant and a service organization that ~~which~~ includes the ability to receive, reformat and send

POS Check Service transactions. The acquirer also provides a unique merchant identifier for each merchant name and location that originates transactions. The acquirer also selects service options to be supported, etc.

A participating drawee bank is enabled to receive and respond to POS Check Service transactions in step 210. Also, the drawee bank is enabled to receive non-parsed MICR data and return parsed MICR data elements in transit routing number and check number fields. The drawee bank also develops a means for reporting POS Check Service transactions on the customer's checking account statements.

In addition to the above setup performed by a participating drawee bank, the third party also performs tasks in step 214 such as arranging customer support for transactions they deny, arranging settlement with the switch for POS Check Service transactions they authorize and reconciliation of those transactions, setting up service options supported, providing reports or raw data for reporting, creating an ACH file on behalf of the acquiring banks, and providing additional services to acquiring banks, such as image archiving and collection services. In step 218 the service organization also performs setup.

**Please replace the second to last paragraph on page 11 with the following paragraph:**

FIG. 5 is a flow diagram describing how a request is initiated to convert a check at the point of sale. At this point in time, a customer is performing a transaction with a merchant and desires to make a purchase using a paper check for payment. In step 302 202 the clerk enters the amount of the transaction into one of the devices described in FIG. 1. Of course, this amount may also be entered by the customer or may in some instances be automatically entered into a cash register using scanning or other known techniques. In step 306 206 the customer presents a paper check for payment. The check is in payment for goods or services and may not be filled out. The customer may receive cash back if the POS Check Service transaction is keyed for an amount above the purchase price. The cash back amount is uniquely identified in the POS Check Service authorization message.

**Please replace the paragraph that bridges pages 11 and 12 with the following paragraph:**

In step 310 the check is swiped through one of the devices described in FIG. 1. Preferably, the check contains MICR data and is swiped through a MICR device. Next, the device reads the raw MICR data from the bottom of the check in step 314. This data will include the transit routing number, the account number of the customer and the check serial number. The device translates the symbols into the appropriate alphanumeric characters (raw TOAD format) in step 318. This translation may also occur at the acquirer. This translation occurring at the device or at the acquirer is not an actual parsing, it is simple substitution of familiar alphanumeric characters for nonprintable separation symbols. The translation assumes no knowledge about the structure of the MICR encoded information other than recognizing which nonprintable symbol matches with which alphanumeric character. As mentioned earlier other devices and readers may be used to obtain the necessary information for the paper check and in certain embodiments the paper check is not required but the identifying information is entered via a keypad or other means herein described.

**Please replace the paragraph that bridges pages 17 and 18 with the following paragraph:**

In step 438, the bank handles the request as per the service requested by the merchant. The raw TOAD MICR data is first parsed as explained below. If Conversion Only is requested in step 442, then the bank may merely check in step 446 to see that a valid account does exist at the bank, that the account has not been closed, and that the account is not fraudulent. (If invalid, a "Do not Honor" response is returned to the merchant's acquirer.) The bank is not obligated to perform further checking or verification. When Verification with Conversion is requested in step 450, then in step 454 the bank not only verifies that the account is valid, but also that the amount of funds in the account is adequate for the transaction. In a preferred embodiment, a bank will also place a hold upon the account for the transaction amount in this step. If Guarantee with Conversion is desired in step 458, then in step 462 the bank will place a hold on the account for the amount of the transaction and will guarantee that the amount will be paid. In other words, the bank must pay the amount regardless of the account balance.

**Please replace the full paragraph on page 18 with the following paragraph:**

Next, the bank generates a response message and returns it to the service organization in step 466. This response message contains a variety of information concerning the transaction; an example response message is shown in Table 4. Included within the response message is a response code generally indicating whether the request is approved. Examples of response codes are shown in Table 5. Table 5 shows the business reason for the response, response code, whether the response is approved or declined, and the responding endpoint eligible to use each of the codes. Once switch 122 receives the response message, it determines if there is an approval in step 470.

**Please replace the paragraph that bridges pages 20 and 21 with the following paragraph:**

Returning for a moment to the "NO" branches of steps 410 and 414, if the transit routing does not match the table of participating banks, or the service requested by the merchant does not match the service provided by the participating bank, then in step 484 the settlement code in the request message is set to a "2" (or other suitable symbol) to signify that settlement will be through ACH because a third-party authorizing agent is used. The following steps describe actions occurring when the authorization request is sent to the third-party authorizing agent 126 in step 485. In some ways, the request is handled in a similar fashion as the participating drawee bank handles the request as described in FIG. 6B. Because the third party, however, does not have control over the customer's account, it must use other means to provide verification and guarantee. In step 486 the request is handled as per the service request. The raw TOAD MICR data is first parsed as explained below. If the request is for Conversion Only in step 487, then in step 488 the third party, at a minimum, verifies that the check is eligible to be converted into an ACH item.

**Please replace the two full paragraphs on page 21 with the following two paragraphs:**

If the request is for Verification with Conversion in step 489, then in step 490 the third party, at a minimum, performs velocity checks, searches their database of returned checks,

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verifies against risk models, etc., to determine the probability that the POS Check Service transaction amount will be paid by the customer's bank. If the request is for Guarantee with Conversion in step 491, then in step 492 the third party performs velocity and database checks and will underwrite the amount of the request, guaranteeing payment even if the item is returned. Finally, in step 493 the third party generates a response message in much the same way as in step 466 and sends the response to the service organization.

Returning to step 470 of FIG. 6B, once the response message has been received by the service organization, it determines whether the transaction has been approved. More specifically, switch 122 processes response messages as shown in Table 6. If the transaction has been approved in step 474, the message is sent to the acquirer or merchant host who then reformats the message into the protocol used with the merchant, and sends the response message back to the merchant in step 482. If the transaction was not approved, the switch first removes the settlement code in step 478, indicating that the item is not settled, before sending the response message back to the acquirer or merchant. Once the response message is received by the merchant, the transaction is then completed at the point of sale as described below.

**Please replace the final two full paragraphs on page 23 with the following two paragraphs:**

FIG. 7 is a flow diagram describing the completion of a transaction at the point of sale. At this point, the merchant has received a response message from the acquirer and will complete the transaction with the customer. Based upon the response code in the response message, the merchant is advised as to whether the transaction has been approved or declined. Preferably, based upon this information, the merchant will either accept or reject the customer's check in step 502. Even if the transaction has been declined, however, the merchant may still decide to accept the customer's paper check like a normal check transaction, i.e., not converting the check into an electronic transaction.

Assuming that the transaction is approved, the merchant then stamps the customer's check "VOID" and returns the check to the customer in step 506. The POS Check Service uses a Consumer-As-Keeper model, and therefore, the merchant does not keep the paper check, but returns it to the customer. In step 510 the merchant generates a receipt for the customer; one such example of a receipt is shown in FIG. 8. Finally, in step 514 the customer signs a copy of

the transaction receipt which is retained by the merchant. This signed receipt proves that the customer has authorized the paper check to be converted into an electronic transaction.

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